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UNCLAS SECTION 01 OF 03 TAIPEI 001107

SIPDIS

DEPT PASS TO AIT/W AND USTR

DEPT FOR EAP/RSP/TC, EAP/EP, EB/TPP/BTA

USTR FOR SCOTT KI

TREASURY FOR OASIA - WISNER

USDOC FOR 4430/ITA/MAC/AP/MBMORGAN

USDOC FOR 4420/ITA/IEP/AP/OCEA/CMCQUEEN

USDOC FOR 3132/USFCS/OIO/EAP/ABACHER/ADESARRAN

USDA FAS FOR ITP/AAD, MTND

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [KTDB](#) [TW](#)

SUBJECT: TAIWAN: 2004 TRADE PERFORMANCE

11. Summary: Taiwan's global trade in 2004 totaled USD 341.9 billion, a record. Both global exports and imports registered historic highs of USD 174 billion and 167.9 billion, respectively, according to Taiwan's Ministry of Finance (MOF). However, due to a faster rate of growth in imports than in exports, Taiwan's 2004 trade surplus posted a six-year low of USD 6.1 billion, down 63.8 percent from a year ago.

12. Domestic industry's strategy of shifting production to the PRC and ASEAN has increased Taiwan's reliance on trade within Asia (especially the PRC and ASEAN). On the other hand, the PRC's pursuit of Regional/Free Trade Agreements with ASEAN, Japan and South Korea could significantly affect Taiwan's trade competitiveness in coming years. Finding ways to counter this threat has become the focus of Taiwan's economic and trade officials.

13. Commodity trade with the U.S. and Europe was stagnant. Taiwan's heavy reliance on key components supplied in 2004 by Japanese and South Korean manufacturers generated a significant trade deficit with these two nations. Japan and South Korea are Taiwan's strongest competitors in the mainland market due to product similarities. End Summary.

GLOBAL TRADE: DOUBLE-DIGIT RISE IN EXPORTS & IMPORTS

14. According to statistics compiled by the Taiwan Ministry of Finance (MOF), Taiwan's global trade in 2004 totaled USD 341.9 billion, growing 25.9 percent from 2003. Taiwan's global imports of USD 167.9 billion and exports of USD 174 billion grew at a double-digit rate, up 31.9 percent and 20.7 percent respectively from 2003. International price increases in agricultural and industrial raw materials, mainly crude oil and iron/steel, contributed to the 31.9-percent growth in imports. Due to a much faster growth in global imports than exports, Taiwan's trade surplus plunged 63.8 percent from USD 16.9 billion in 2003 to USD 6.1 billion, a six-year low.

15. Taiwan's export markets continue to move away from developed country trading partners like the U.S. and Europe and towards developing countries like the PRC and ASEAN; and from high-tech finished product exports to advanced countries to semi-finished products, components, and raw material exports to developing countries. This reflects Taiwan industry's recent strategy of setting up low cost production bases overseas, primarily in the PRC, Vietnam and Thailand. MOF statistics show that over 52 percent of Taiwan's 2004 exports were machinery and electronics, up 16.6 percent from 2003. However, for the first time, the growth of Taiwan's machinery/electronics exports fell behind the rate of its overall rise in global exports.

16. One consequence of Taiwan's shifting patterns of trade is that the trade surplus with the U.S. and Europe shrank significantly. The trade surplus with the U.S. dropped 28.9 percent and with Europe 49.3 percent. Nevertheless, its trade surplus with Hong Kong, composed largely of transshipments to the PRC, surged 21.5 percent.

Trade with U.S. Grew, but Trade Reliance on U.S. Fell

17. Two-way trade with the U.S. in 2004 grew 16.3 percent from 2003 to USD 49.8 billion. Imports from

the U.S. rose 28.6 percent from 2003 to USD 21.6 billion, stimulated by Taiwan's demand for capital goods, including machinery, electrical machinery and precision instruments. Taiwan's exports to the U.S. grew only 8.4 percent to USD 28.1 billion. Mainland China has become Taiwan's largest IT production base for meeting export orders from developed countries like the U.S., Europe and Japan. This substitution effect was further driven by Taiwan's recent decision to further liberalize regulations governing investment in high tech production facilities on the mainland, especially for notebook PCs and TFT-LCD panel assembly. MOF statistics showed over 53 percent (or USD 15 billion) of Taiwan's 2004 exports to the U.S. were machinery and electronics, which merely inched up 1.8 percent from 2004. Noticeably, information and communication exports to the U.S. (USD 3 billion) plunged 29 percent from 2003, largely replaced by high-tech exports from Taiwan manufacturers in the PRC.

18. Despite the 16.3-percent increase in U.S. two-way trade with Taiwan in 2004, Taiwan's trade reliance on the U.S. declined from 15.7 percent in 2003 to 14.5 percent in 2004. Over the past five years, Taiwan's exports to the PRC have continued to rise steadily and its trade reliance on the PRC posted a significant increase (2004 data is not available): in 2003 Taiwan's exports to the PRC accounted for 24.5 percent of Taiwan's global exports, versus 22.6 percent in 2002, 19.6 percent in 2001, 17.6 percent in 2000, 17.5 percent in 1999, and 16.6 percent in 1998. In contrast, U.S.-bound exports accounted for only 16.2 percent of Taiwan's global exports in 2004, versus 18 percent in 2003, 20.5 percent in 2002, 22.5 percent in 2001, 23.5 percent in 2000, 25.4 percent in 1999, and 26.6 percent in 1998.

19. Beginning in 2003, the U.S. fell from the top spot on the list of Taiwan's largest trading partners, surpassed by both the PRC and Japan. Japan maintained its influential trade ties with Taiwan, remaining its largest import supplier. The PRC was Taiwan's largest export market followed by the U.S.

62 percent of Taiwan's Exports to Asia, Mainly the PRC

10. Taiwan's 2004 exports to Asia accounted for 62 percent of Taiwan's global exports, growing 26.1 percent from 2003 and posting a higher percentage increase than the growth of global exports. Nearly 60 percent of Taiwan's exports to Asia in 2004 went to Hong Kong and the PRC. But these exports face strong competition from Japan and South Korea as well as from domestic PRC suppliers. A Chung-hua Institution for Economic Research (CIER) report showed that PRC imports from Taiwan as a percentage of the PRC's global imports dropped, while that of Japan and South Korea continues to rise. The PRC's pursuit of Regional/Free Trade Agreements with ASEAN, Japan and South Korea could significantly affect Taiwan's trade competitiveness in coming years (septel). Finding ways to counter this threat has become the focus of Taiwan's economic and trade officials.

Source of Taiwan's Trade Deficit: Japan and S. Korea

11. Japan has been the chronic source of Taiwan's trade deficit for many years and since 1998 South Korea has emerged as the second largest contributor to Taiwan's trade deficit. In 2004, Taiwan's trade deficit with Japan and South Korea expanded more than 45 percent from 2003 to USD 30 billion and USD 6.3 billion, respectively. Taiwan's Board of Foreign Trade (BOFT) commented that factors contributing to Taiwan's trade deficit with South Korea and Japan are similar, i.e., Taiwan's heavy reliance on South Korean key components like integrated circuits (ICs), micro-components, petrochemicals and computer peripherals. According to BOFT, ICs and micro-component imports from South Korea in 2004 accounted for 39 percent of Taiwan's imports from South Korea. Other important imports from South Korea included radio-telephone transmission equipment and computer peripheral parts.

COMMENT - TRIANGULAR TRADE & OTHER COMPLEXITIES

12. Due to Taiwan's heavy reliance on the PRC as an IT production base, much of Taiwan's trade with the U.S. is now cycled through the PRC for final assembly and onward shipment to the U.S. As a result, the U.S. trade relationship with Taiwan has grown more complex and involves a triangle relationship between the U.S., Taiwan and China. Taiwan has been trying to free its key IT industries, mainly semiconductors and flat-panel displays, from technology dependency on advanced

countries like the U.S. and Japan by providing investment incentives to business, strengthening R&D and training new talent. However, its reliance on key component imports has not eased. On the contrary, since Taiwan issued its 'Challenge 2008' national development plan in 2002, announcing its intention to upgrade its star-industries, semiconductors and flat-panel displays, imports of related key components from Japan and South Korea have increased significantly. Unless Taiwan officials can develop domestic sources for key components, Taiwan's trade deficit with Japan and South Korea likely will continue to grow.

13. Tables with detailed data on Taiwan's foreign trade in 2004 are available on our website:
http://taipei.state.gov/ait_s/econ/econ_web/Taiwans%20Foreign%20Trade.htm
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